

VALEO BEHAVIORAL
HEALTH CARE, INC.

Financial Statements
with
Independent Auditors' Report
For the years ended December 31, 2008 and 2007

By

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VALEO BEHAVIORAL HEALTH CARE, INC.
FINANCIAL STATEMENTS

For the years ended December 31, 2008 and 2007

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Valeo Behavioral Health Care, Inc.

We have audited the accompanying statements of financial position of Valeo Behavioral Health Care, Inc. (Valeo) as of December 31, 2008 and 2007, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of Valeo's management. Our responsibility is to express an opinion on these financial statements based on our audits.

Except as discussed in the following paragraph, we conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 12 and in accordance with the terms of our engagement for the years ended December 31, 2008 and 2007, the financial statements as of and for the years ended December 31, 2008 and 2007 do not include the financial position and results of operation of Valeo CRP, Inc., an affiliate which Valeo controls.

In our opinion, except for the effects of the adjustments required to include Valeo CRP, Inc., an affiliate of Valeo, as of and for the years ended December 31, 2008 and 2007, the financial statements referred to above present fairly, in all material respects, the financial position of Valeo Behavioral Health Care, Inc. at December 31, 2008 and 2007, and the changes in its net assets and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated September 15, 2009 on our consideration of Valeo's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for assessing the results of our audit.

Our audits were performed for the purpose of forming an opinion on the financial statements taken as a whole. The supplementary schedules are presented for purposes of additional analysis and are not a required part of the financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of*

States, Local Governments, and Non-Profit Organizations, and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audits of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Douthett & Co. CPA, PA
Douthett & Co. CPA, PA
Certified Public Accountants
September 15, 2009

VALEO BEHAVIORAL HEALTH CARE, INC.

STATEMENTS OF FINANCIAL POSITION
December 31, 2008 and 2007

	<u>2008</u>	<u>2007</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,418,089	\$ 1,775,797
Operating investments	5,275,055	3,725,013
Accounts receivable, net	1,503,990	2,056,749
Grants receivable	68,112	170,468
Other receivable	32,058	104,074
Due from Valeo CRP, Inc.	15,386	24,334
Prepaid expenses	<u>145,830</u>	<u>778,749</u>
Total Current Assets	8,458,520	8,635,184
CASH AND CASH EQUIVALENTS, Board designated	393,731	196,418
PROPERTY AND EQUIPMENT, net of accumulated depreciation	3,988,856	4,128,345
OTHER ASSETS		
Financing costs, net of accumulated amortization	<u>109,369</u>	<u>122,062</u>
TOTAL ASSETS	<u>\$ 12,950,476</u>	<u>\$ 13,082,009</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 94,797	\$ 111,230
Accrued payroll	657,433	551,780
Accrued vacation	469,393	411,181
Other current liabilities	720,011	563,136
Current portion of long-term debt	185,000	180,000
Deferred revenue	<u>24,334</u>	<u>1,501,367</u>
Total Current Liabilities	2,150,968	3,318,694
LONG-TERM DEBT, less current portion, net of discount	<u>1,696,641</u>	<u>1,873,380</u>
TOTAL LIABILITIES	3,847,609	5,192,074
NET ASSETS		
Unrestricted:		
Board designated	735,363	394,205
Undesignated	<u>8,367,504</u>	<u>7,495,730</u>
TOTAL NET ASSETS	<u>9,102,867</u>	<u>7,889,935</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 12,950,476</u>	<u>\$ 13,082,009</u>

See accompanying notes to financial statements

VALEO BEHAVIORAL HEALTH CARE, INC.

STATEMENTS OF ACTIVITIES

For the years ended December 31, 2008 and 2007

	2008	2007
SUPPORT		
State mental health funds	\$ 3,384,843	\$ 3,980,862
Federal and state grants and contracts	2,153,933	2,549,929
Shawnee County taxes	2,108,057	2,012,462
City of Topeka taxes	251,520	289,520
Total Support	7,898,353	8,832,773
REVENUES		
Net patient fees	9,885,253	8,634,278
Management fees	182,057	176,724
Interest	147,665	243,035
Miscellaneous	843,144	573,257
Total Revenues	11,058,119	9,627,294
TOTAL SUPPORT AND REVENUES	18,956,472	18,460,067
OPERATING EXPENSES		
Salaries and fringe benefits	11,549,945	10,833,994
Payments to affiliates	2,499,561	3,237,012
Depreciation and amortization	464,933	454,058
Telephone and utilities	372,684	345,101
Food and client supplies	386,632	361,444
Maintenance and repairs	368,295	322,834
Meetings and travel	344,104	329,064
Rents	62,537	50,277
Advertising	29,757	48,988
Printing and postage	42,610	34,972
Professional services	864,050	740,095
General and professional liability insurance	90,345	106,936
Seminars	68,955	43,059
Office supplies	171,716	129,092
Data processing supplies and support	34,315	36,489
Interest expense	86,456	92,851
Client transportation	56,384	44,302
Medical supplies	29,492	4,047
Medical services	2,970	2,567
Dues and memberships	65,006	41,919
Non-capital equipment	46,551	17,139
Property insurance	76,312	76,094

See accompanying notes to financial statements

VALEO BEHAVIORAL HEALTH CARE, INC.

STATEMENTS OF ACTIVITIES (Continued)
For the years ended December 31, 2008 and 2007

	<u>2008</u>	<u>2007</u>
OPERATING EXPENSES (Continued)		
Books and library materials	\$ 5,903	\$ 6,548
Miscellaneous	<u>24,027</u>	<u>16,649</u>
TOTAL OPERATING EXPENSES	<u>17,743,540</u>	<u>17,375,531</u>
INCREASE IN UNRESTRICTED NET ASSETS	1,212,932	1,084,536
NET ASSETS, beginning of year	<u>7,889,935</u>	<u>6,805,399</u>
NET ASSETS, end of year	<u><u>\$ 9,102,867</u></u>	<u><u>\$ 7,889,935</u></u>

See accompanying notes to financial statements

VALEO BEHAVIORAL HEALTH CARE, INC.

STATEMENTS OF CASH FLOWS
For the years ended December 31, 2008 and 2007

	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	\$ 1,212,932	\$ 1,084,536
Adjustments to reconcile changes in net assets to net cash provided (used) by operating activities:		
Depreciation and amortization	464,933	454,058
Changes in assets and liabilities:		
Accounts receivable	552,759	(970,660)
Grants receivable	102,356	8,601
Other receivable	72,016	(3,191)
Due from Valeo CRP, Inc.	8,948	(18,640)
Prepaid expenses	632,919	(540,471)
Accounts payable	(16,433)	44,615
Accrued payroll	105,653	49,896
Accrued vacation	58,212	(5,100)
Other current liabilities	156,875	113,833
Deferred revenue	(1,477,033)	1,240,987
Net Cash Provided (Used) by Operating Activities	1,874,137	1,458,464
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(312,750)	(206,591)
Investment income	(31,500)	(8,649)
Proceeds from redemption of operating investments	5,517,377	1,500,000
Purchase of operating investments	(7,035,920)	(1,333,760)
Net Cash Provided (Used) by Investing Activities	(1,862,793)	(49,000)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Principal payments on certificates	(171,739)	(166,185)
Net Cash Provided (Used) by Financing Activities	(171,739)	(166,185)
NET INCREASE (DECREASE) IN CASH	(160,395)	1,243,279
CASH AND CASH EQUIVALENTS, beginning of year	1,972,215	728,936
CASH AND CASH EQUIVALENTS, end of year	\$ 1,811,820	\$ 1,972,215

See accompanying notes to financial statements

VALEO BEHAVIORAL HEALTH CARE, INC.

STATEMENTS OF CASH FLOWS (Continued)
For the years ended December 31, 2008 and 2007

	<u>2008</u>	<u>2007</u>
STATEMENT OF FINANCIAL POSITION PRESENTATION:		
Cash and cash equivalents	\$ 1,418,089	\$ 1,775,797
Operating investments - Board designated	<u>393,731</u>	<u>196,418</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 1,811,820</u>	<u>\$ 1,972,215</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid during the year for interest	<u>\$ 86,456</u>	<u>\$ 92,851</u>

See accompanying notes to financial statements

VALEO BEHAVIORAL HEALTH CARE, INC.

NOTES TO FINANCIAL STATEMENTS
For the years ended December 31, 2008 and 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Valeo Behavioral Health Care, Inc. (Valeo) is a comprehensive mental health center licensed by the State of Kansas with three major program components serving Shawnee County, Kansas. The first program, Mental Health Services, provides a crisis stabilization unit and case management services to the long-term mentally ill adult population, screening, referrals, short-term outpatient mental health services and a 24-hour crisis service. The second program, Medical Services, provides medication services to those who require psychotropic medications and monitoring. The third program, Valeo Recovery Center, provides residential and outpatient treatment for alcoholism and drug dependency.

Basis of Accounting

The financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the organization and changes therein are classified and reported as unrestricted, temporarily restricted or permanently restricted based on whether there are donor imposed restrictions.

Financial Statement Presentation

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards No. 117, *Financial Statements of Not-for-Profit Organizations*. Under SFAS No. 117, Valeo is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. Support that is restricted by donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All other restricted support is reported as an increase in temporarily or permanently restricted net assets depending on the nature of the restriction. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets. Net assets are released from restrictions by incurring expenses satisfying the restricted purpose. The Organization has no temporarily or permanently restricted net assets as of December 31, 2008 and 2007.

Cash and Cash Equivalents

For purposes of the statement of cash flows, cash and cash equivalents consist of petty cash, checking accounts and money market accounts. The carrying value of cash and cash equivalents approximates fair value because of the short maturities of those financial instruments. The Organization had no noncash financing transactions nor made cash payments for income taxes.

On December 31, 2008, Valeo purchased \$1,227,556 of Federal Home Loan Bank bonds under a daily repurchase agreement to be resold on January 2, 2009. On December 31, 2007, Valeo purchased \$2,219,583 of Federal Home Loan Bank bonds under a daily repurchase agreement to be resold on January 2, 2008. These amounts are included in cash and cash equivalents in the accompanying Statements of Financial Position. Due to the short-term nature of the agreement, Valeo did not take possession of the securities, which were instead held in Valeo's safekeeping account at the bank.

VALEO BEHAVIORAL HEALTH CARE, INC.

NOTES TO FINANCIAL STATEMENTS
For the years ended December 31, 2008 and 2007

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Operating Investments

Operating investments consist of a certificate of deposit and equity and debt securities. The equity and debt securities, which are held by investment companies, are carried at market value. The certificate of deposit, which is held by a financial institution, is carried at cost because it is not affected by market rate changes.

Accounts Receivable

Accounts receivable are carried at original invoice amount less estimates for contractual allowances and uncollectible amounts based on a review of all outstanding amounts on a regular basis. After all third party sources have been billed, individual consumers are given ninety days to pay their balances. When a balance is greater than ninety days old, Valeo determines whether the account should be sent to a collection agency or written off.

Property and Equipment

Property and equipment are carried at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. Expenditures for major renewals and betterments that extend the lives of property and equipment are capitalized. When assets are retired or otherwise disposed of, the asset and related accumulated depreciation are reduced and any resulting gain or loss is recognized in income for the period. The cost of maintenance and repairs are expensed as incurred.

Financing Costs

Financing costs are being amortized using a method which approximates the effective interest method over the term of the certificates of participation. Amortization expense for the years ended December 31, 2008 and 2007 was \$8,270 and \$8,815, respectively.

Accrued Vacation

Personal leave is accrued at varying rates based on years of service. A maximum of thirty days of vacation leave may be accrued by any employee.

Deferred Revenue

Grant funds received but unearned at the end of an accounting period are reflected as deferred revenue.

Net Patient Fees

Net patient fees are reported at the estimated net realizable amounts from patients, third-party payors, and others for service rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered, and adjusted in future periods as final settlements are determined.

VALEO BEHAVIORAL HEALTH CARE, INC.

NOTES TO FINANCIAL STATEMENTS
For the years ended December 31, 2008 and 2007

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Advertising Costs

Advertising costs are charged to operations when incurred. For the years ended December 31, 2008 and 2007, advertising costs totaled \$29,757 and \$48,988.

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in Note 10 to the financial statements. Accordingly, certain costs have been allocated among the programs and supporting services on the basis of benefits received from the associated costs. Affiliates are subrecipients of federal, state and local moneys.

Income Taxes

Valeo, which has been classified as an entity other than a private foundation, is exempt from federal income taxes under the provisions of the Internal Revenue Code, Section 501(c)(3). Accordingly no provisions for income taxes has been made.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2 - INVESTMENT OF FUNDS

At December 31, 2008 and 2007, the bank balances of Valeo's deposits was \$1,925,857 and \$2,719,583, of which \$250,000 for 2008 and \$100,000 for 2007 year was covered by Federal Deposit Insurance Corporation (FDIC), \$1,227,556 and \$2,000,647 secured by securities held in a sweep account and an additional balance of \$400,000 secured by a bank deposit guaranty bond. At December 31, 2008, the Organization was fully insured. At December 31, 2007, the Organization had an uninsured balance of \$218,936 that was in excess of the securities and security bond.

In addition, Valeo holds \$5,443,209 and \$3,617,971 of cash and cash equivalents at December 31, 2008 and 2007 in separate accounts held by investment companies. Balances are insured up to \$500,000, with a limit of \$100,000 for cash, by the Securities Investor Protection Corporation (SIPC). At December 31, 2008 and 2007, the Organization had approximately \$4,333,130 and \$2,785,000 in excess of SIPC insured limits. However, the brokerage firms have purchased additional insurance from external insurance companies against loss. As a result, Valeo's brokerage accounts are fully insured at December 31, 2008 and 2007.

VALEO BEHAVIORAL HEALTH CARE, INC.

NOTES TO FINANCIAL STATEMENTS
For the years ended December 31, 2008 and 2007

NOTE 3 – OPERATING INVESTMENTS

Operating investments consists of the following at December 31, 2008:

	Cost	Fair Value	Unrealized Gain (Loss)
Certificate of deposit	\$ 241,808	\$ 241,808	\$ -
Mutual funds	4,733,130	4,733,130	-
Taxable bonds	300,117	300,117	-
Total Operating Investments	<u>\$ 5,275,055</u>	<u>\$ 5,275,055</u>	<u>\$ -</u>

Operating investments consists of the following at December 31, 2007:

	Cost	Fair Value	Unrealized Gain (Loss)
Certificate of deposit	\$ 265,013	\$ 265,013	\$ -
Equity fund - preferred shared	1,950,000	1,950,000	-
Taxable bonds	1,510,000	1,510,000	-
Total Operating Investments	<u>\$ 3,725,013</u>	<u>\$ 3,725,013</u>	<u>\$ -</u>

NOTE 4 – NET PATIENT FEES

Valeo generally does not require collateral or other security in extending credit to patients; however, it routinely obtains assignment of (or is otherwise entitled to receive) patients' benefits payable under their health insurance programs, plan or policies. Additionally, agreements have been established with third-party payors that provide for payments to Valeo at amounts different from it established rates. The basis for payment to Valeo under these agreements includes prospectively determined discounts from established charges or prospectively determined daily rates.

Allowance for bad debt at December 31, 2008 and 2007 was \$1,026,469 and \$1,413,451, respectively. Contractual allowances totaled \$473,283 and \$914,315 at December 31, 2008 and 2007.

VALEO BEHAVIORAL HEALTH CARE, INC.

NOTES TO FINANCIAL STATEMENTS
For the years ended December 31, 2008 and 2007

NOTE 5 – PROPERTY AND EQUIPMENT

Property and equipment consists of the following at December 31:

	2008	2007
Land	\$ 367,775	\$ 367,775
Buildings	5,736,977	5,733,848
Real estate leasehold	123,676	123,676
Leasehold improvements	247,984	247,984
Office equipment	2,112,628	1,860,958
Motor vehicles	324,313	266,361
	<hr/>	<hr/>
Total Property and Equipment	8,913,353	8,600,602
Less accumulated depreciation	(4,924,497)	(4,472,257)
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Net Property and Equipment	\$ 3,988,856	\$ 4,128,345
	<hr/>	<hr/>

Depreciation expense for the years ended December 31, 2008 and 2007 was \$464,933 and \$454,058, respectively.

In 2005, the Board of Directors of Valeo transferred a house from Valeo CRP, Inc., a wholly owned subsidiary to Valeo. This transfer was recorded as a capital contribution on the accompanying Statement of Activities.

NOTE 6 – OPERATING LEASE COMMITMENTS

Valeo leases equipment under several operating leases which expire in various years through 2012. Total rent expense was \$62,537 and \$50,277 for the years ended December 31, 2008 and 2007. The future minimum operating lease payments are as follows:

2009	\$ 58,610
2010	52,805
2011	36,364
2012	15,333
2013	4,870
	<hr/>
Total	\$ 167,982
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NOTE 7 – LONG-TERM DEBT

In 1991, the construction of a facility and the purchase of land and a building for Valeo Recovery Center were financed through Certificates of Participation issued by Shawnee County, Kansas (the County). Valeo is the sublessee and the County is the lessee in the transaction which is, in substance, a capital lease. In June 1994, the County issued \$1,215,000 in Certificates of Participation for the purpose of advance refunding the remaining principal of the Series 1991 issue.

VALEO BEHAVIORAL HEALTH CARE, INC.

NOTES TO FINANCIAL STATEMENTS
For the years ended December 31, 2008 and 2007

NOTE 7 – LONG-TERM DEBT (Continued)

In February 1999, the County issued \$3,375,000 in Certificates of Participation Series 1999A, at a discount of \$69,945, for the purpose of refunding the 1994 Certificates of Participation and to finance the cost of the expansion of certain facilities. The 1999A Certificates of Participation require annual principal payments and expire in 2019. The balance due at December 31, 2004 was \$2,635,000 less the discount of \$39,757. This discount is being amortized over the life of the certificates. Amortization of the discount charged to interest expense was \$3,875 and \$4,099 in 2008 and 2007.

In August, 2005, the County issued Certificates of Participation Series 2005, at a discount of \$33,742, for the purpose of refunding the 1999A Certificates of Participation. The 2005 Certificates of Participation require annual principal payments and expire in 2017. They bear an interest rate from 2.8% to 4.0%. As the 1999A Certificates are not callable until 2009, the discount on this issue is still being amortized over the life of the original certificates. The discount on the 2005 bonds is also being amortized over the life of the bonds. The balance due at December 31, 2007 was \$2,105,000 less the cumulative discount of \$51,620. Amortization of the discount charged to interest expense was \$4,395 and \$4,437 in 2008 and 2007. Maturities of long-term debt are as follows:

2009	\$	185,000
2010		190,000
2011		195,000
2012		205,000
2013		215,000
Thereafter		<u>935,000</u>
Total Debt		1,925,000
Less: Discount on long-term debt		(43,359)
Current portion of long-term debt		<u>(185,000)</u>
Net Long-term Debt	\$	<u>1,696,641</u>

NOTE 8 - BOARD DESIGNATED FUNDS

Valeo has designated a portion of net assets to provide for the repayment of principal and interest on the Certificates of Participation and for health insurance withheld.

The amounts designated at December 31 are as follows:

	<u>2008</u>	<u>2007</u>
Bond payments - principal and interest	\$ 393,731	\$ 196,418
Health insurance withheld	<u>341,632</u>	<u>197,787</u>
Total Designated Net Assets	<u>\$ 735,363</u>	<u>\$ 394,205</u>

VALEO BEHAVIORAL HEALTH CARE, INC.

NOTES TO FINANCIAL STATEMENTS
For the years ended December 31, 2008 and 2007

NOTE 9 - PENSION PLAN

The Organization has a 401(k) Plan (Plan) to provide retirement benefits for its employees. Employees may contribute from their annual compensation to the Plan, limited to a maximum annual amount as set periodically by the Internal Revenue Service. The Company contributes 50% of the first 4% of base compensation that an employee contributes to the Plan. All matching contributions vest on years of continuous service. An employee is 100% vested after six years of credited service. In addition, the Plan provides for discretionary profit-sharing contributions as determined by the Board of Directors. Such contributions to the Plan are allocated among eligible participants in the proportion of their salaries to the total salaries of all participants.

Valeo's matching contributions to the Plan was \$75,990 and \$70,497 and profit-sharing was \$367,752 and \$321,239 for the years ended December 31, 2008 and 2007.

NOTE 10 - FUNCTIONAL EXPENSES

Valeo's expenses by function are as follows for the year ended December 31:

	2008	2007
Administration and overhead	\$ 2,320,585	\$ 2,181,297
Mental health services	8,990,299	8,394,301
Medical services	1,487,673	1,267,997
Valeo Recover Center	2,445,422	2,294,924
Unallocate payments to affiliates	2,499,561	3,237,012
Total Expenses	<u>\$ 17,743,540</u>	<u>\$ 17,375,531</u>

NOTE 11 - PAYMENTS TO AFFILIATES

Valeo's payments to affiliates for the year ended December 31 consist of the following:

	2008	2007
Breakthrough House	\$ 415,520	\$ 426,221
Family Service and Guidance Center	2,084,041	2,810,791
Total Pass-through of Grants and Tax Subsidies	<u>\$ 2,499,561</u>	<u>\$ 3,237,012</u>

At the end of 2007, Valeo paid \$649,161 and \$67,288 to Family Service and Guidance Center and Breakthrough House for future services. These amounts are included in prepaid expenses on the Statement of Financial Position.

VALEO BEHAVIORAL HEALTH CARE, INC.

NOTES TO FINANCIAL STATEMENTS
For the years ended December 31, 2008 and 2007

NOTE 12 - TRANSACTIONS WITH AFFILIATE

Valeo CRP, Inc. (CRP) was created to provide residential housing and care for individuals in need of continuing mental health care. Valeo is the sole member of CRP. CRP pays Valeo 15% of its net patient fees and professional fees and revenue as a management fee. Management fees totaled \$182,057 and \$176,724 for the years ended December 31, 2008 and 2007. CRP owes Valeo \$15,386 and \$24,334 at December 31, 2008 and 2007.

The financial position and results of operations of CRP for 2008 and 2007 are not included in these financial statements. Valeo CRP, Inc. issues separate financial statements.

NOTE 13 - RISK MANAGEMENT

Valeo participates in a partially self-funded health insurance program administered by Blue Cross Blue Shield. A monthly premium is paid for stop-loss coverage and includes an amount for administrative costs. The maximum liability for Valeo for each individual covered is \$60,000 per plan year with an aggregate plan maximum liability of approximately \$1,135,866.

Valeo made claim payments of approximately \$858,000 and \$834,000 during the years ended December 31, 2008 and 2007. At December 31, 2008 and 2007, Valeo had recorded a liability of approximately \$342,000 and \$198,000 for estimated self-insured liability claims which are included in other current liabilities on the Statement of Financial Position.

NOTE 14 - COMMITMENTS AND CONTINGENCIES

Litigation

Valeo is a party to litigation matters and claims arising in the normal course of its operations. In the opinion of management, disposition of these matters will not have a material adverse effect on Valeo's financial position or results of operations.

SUPPLEMENTARY INFORMATION

VALEO BEHAVIORAL HEALTH CARE, INC.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the year ended December 31, 2008

Grantor/Pass-through Grantor/Program Title	Federal CFDA Number	Pass-through Grantor's Number	Award Amount	Expenditures
U.S. Department of Health and Human Services:				
Passed through Kansas Department of Social and Rehabilitation Services:				
Substance Abuse Prevention and Treatment Block Grant	93.959	ADT 05-05-04	* \$ 3,771,710	\$ 675,070
Community Mental Health Services Block Grant	93.958	MHRC 08-023	* 413,594	206,797
Community Mental Health Services Block Grant	93.958	MHCC 09-023	413,593	206,797
Total Community Health Services Block Grant				413,594
PATH Block Grant	93.150	PATH 07-023	* 194,500	46,803
PATH Block Grant	93.150	PATH 09-023	61,116	10,157
Total PATH Block Grant				56,960
Total Expenditures				\$ 1,145,624

* Award Amended

See accompanying notes to schedule of federal and state awards

VALEO BEHAVIORAL HEALTH CARE, INC.

SCHEDULE OF EXPENDITURES OF STATE AWARDS

For the year ended December 31, 2008

Grantor/Pass-through Grantor/Program Title	Pass-through Grantor's Number	Award Amount	Expenditures
Kansas Department of Social and Rehabilitation Services:			
Substance Abuse Prevention and Treatment Block Grant	ADT 05-05-04	* \$ 2,260,730	\$ 708,028
Mental Health Reform Contract	MHRC 08-023	1,998,447	999,223
Mental Health Reform Contract	MHCC 09-023	1,864,274	794,460
Total Mental Health Reform Contract			1,793,683
Mental Health State Aid	HCP-MHDD-SA-08-21	976,028	488,014
Mental Health State Aid	HCP-MHDD-SA-09-21	976,028	488,014
Total Mental Health State Aid			976,028
Total Expenditures			\$ 3,477,739

* Award Amended

See accompanying notes to schedule of federal and state awards

VALEO BEHAVIORAL HEALTH CARE, INC.

NOTES TO SCHEDULES OF FEDERAL AND STATE AWARDS
For the year ended December 31, 2008

NOTE 1 – GENERAL

The accompanying schedules of expenditures of federal and state awards present the activity of all federal and state awards to Valeo Behavioral Health Care, Inc.

NOTE 2 – BASIS OF ACCOUNTING

The accompanying schedules are presented on the accrual basis of accounting.

VALEO BEHAVIORAL HEALTH CARE, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the year ended December 31, 2008

Section I – Summary of Auditor's Results

Summary of independent auditors' results:

Financial statements:

Type of report issued:

Financial statements	Qualified
Compliance for Major Programs	Unqualified

Internal control over financial reporting:

Material weaknesses identified	None
Reportable conditions identified that are not considered to be material weaknesses	None reported

Material noncompliance noted:	None
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Federal awards:

Internal control over major programs:

Material weaknesses identified	None
Reportable conditions identified that are not considered to be material weaknesses	Note reported

Major Programs:

Substance Abuse Prevention and Treatment Block Grant	CFDA No. 93.959
Community Mental Health Services Block Grant	CFDA No. 93.958

Findings required to be reported	None
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Dollar threshold between Type A and Type B programs	\$300,000
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Low-risk auditee	No
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VALEO BEHAVIORAL HEALTH CARE, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the year ended December 31, 2008

Section II – Financial Statements Findings

There were no reportable conditions, material weaknesses nor instances of noncompliance related to the financial statements that are required to be reported.

Section III – Federal Award Findings and Questioned Costs

There were no audit findings required to be reported by section 510 (a) of Circular A-133 found or reported.

Section IV – Status of Corrective Action Taken on Prior Findings

There were no audit findings or questioned costs for the year ended December 31, 2007 and therefore no corrective action was needed during year ended December 31, 2008.

Certified Public Accountants

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Directors
Valeo Behavioral Health Care, Inc.

We have audited the financial statements of Valeo Behavioral Health Care, Inc. as of and for the year ended December 31, 2008, and have issued our report thereon dated September 15, 2009 which is qualified because the financial statements do not include the financial position and results of operations of Valeo CRP, Inc., an affiliate which Valeo controls. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Valeo's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Valeo's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Valeo's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

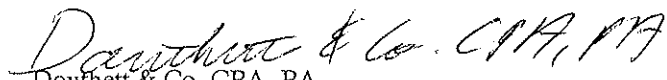
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Valeo's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed

no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, the Board of Directors, others within the entity, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.


Douthett & Co. CPA, PA
Certified Public Accountants
September 15, 2009

Certified Public Accountants

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REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH
MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Board of Directors
Valeo Behavioral Health Care, Inc.

Compliance

We have audited the compliance of Valeo Behavioral Health Care, Inc. with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2008. Valeo's major federal programs are identified in the summary of auditor's results section in the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Valeo's management. Our responsibility is to express an opinion on Valeo's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Valeo's compliance with those requirements and performing such other procedures as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Valeo's compliance with those requirements.

In our opinion, Valeo's complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2008.

Internal Control Over Compliance


The management of Valeo is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Valeo's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Valeo's internal control over compliance.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that result in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, the Board of Directors, others within the entity, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.


Douthett & Co. CPA, PA
Certified Public Accountants
September 15, 2009

SUPPLEMENTARY INFORMATION BASED ON SOCIAL AND
REHABILITATION SERVICES' REQUIREMENTS

VALEO BEHAVIORAL HEALTH CARE, INC.

STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS
GRANT ACTIVITY – CASH BASISPATH BLOCK GRANT #PATH 07-023
For the year ended December 31, 2008

	<u>Budget</u>	<u>Through 12-31-07</u>	<u>Actual 1-1-08 to 09-30-08</u>	<u>Total</u>	<u>Over (Under) Budget</u>
Receipts:					
Grant	<u>\$ 194,500</u>	<u>\$ 104,151</u>	<u>\$ 82,888</u>	<u>\$ 187,039</u>	<u>\$ (7,461)</u>
Disbursements:					
Staffing/personnel	\$ 157,395	\$ 105,320	\$ 52,075	\$ 157,395	\$ -
Travel	13,202	5,741	7,461	13,202	-
Equipment	1,416	607	-	607	(809)
Supplies	18,725	9,311	6,606	15,917	(2,808)
Other expenses	<u>3,762</u>	<u>2,222</u>	<u>1,540</u>	<u>3,762</u>	<u>-</u>
Total Disbursements	<u>\$ 194,500</u>	<u>\$ 123,201</u>	<u>\$ 67,682</u>	<u>\$ 190,883</u>	<u>\$ (3,617)</u>

* Valeo provided a match of \$102,562 for this grant
Includes Federal PATH Funds of \$134,500 and State Post-access Funds of \$60,000

See accompanying independent auditors' report

VALEO BEHAVIORAL HEALTH CARE, INC.

STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS
GRANT ACTIVITY – CASH BASISPATH BLOCK GRANT #PATH 09-023
For the year ended December 31, 2008

	<u>Budget</u>	<u>Actual 10-1-08 to 12-31-08</u>	<u>Over (Under) Budget</u>
Receipts:			
Grant	<u>\$ 92,600</u>	<u>\$ -</u>	<u>\$ (92,600)</u>
Disbursements:			
Staffing/personnel	\$ 75,762	\$ 14,611	\$ (61,151)
Travel	3,150	779	(2,371)
Equipment	398	-	(398)
Supplies	571	-	(571)
Other expenses	<u>12,719</u>	<u>-</u>	<u>(12,719)</u>
Total Disbursements	<u>\$ 92,600</u>	<u>\$ 15,390</u>	<u>\$ (77,210)</u>

* Valeo wil provid a match of \$56,014 for this grant

Includes Federal PATH Funds of \$61,116 and State Post-access Funds of \$31,484

See accompanying independent auditors' report

VALEO BEHAVIORAL HEALTH CARE, INC.

STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS
GRANT ACTIVITY – CASH BASIS

OTHER GRANTS

For the year ended December 31, 2008

	<u>Budget</u>	<u>Through 12-31-07</u>	<u>Actual 1-1-08 to 12-31-08</u>	<u>Total</u>
Substance Abuse Prevention and Treatment Block Grant # ADT 05-05-04				
Receipts	<u>\$ 6,032,440</u>	<u>\$ 3,898,255</u>	<u>\$ 1,441,094</u>	<u>\$ 5,339,349</u>
Disbursements	<u>\$ 6,032,440</u>	<u>\$ 4,061,220</u>	<u>\$ 1,596,187</u>	<u>\$ 5,657,407</u>
Mental Health State Aid #HCP-MHDD-SA-08-21				
Receipts	<u>\$ 976,028</u>	<u>\$ 732,021</u>	<u>\$ 244,007</u>	<u>\$ 976,028</u>
Disbursements	<u>\$ 976,028</u>	<u>\$ 488,014</u>	<u>\$ 488,014</u>	<u>\$ 976,028</u>
Mental Health State Aid #HCP-MHDD-SA-09-21				
Receipts	<u>\$ 976,028</u>	<u>\$ -</u>	<u>\$ 488,014</u>	<u>\$ 488,014</u>
Disbursements	<u>\$ 976,028</u>	<u>\$ -</u>	<u>\$ 488,014</u>	<u>\$ 488,014</u>
Mental Health Reform Contract #MHRC 08-023				
Receipts	<u>\$ 2,412,041</u>	<u>\$ 2,412,041</u>	<u>\$ -</u>	<u>\$ 2,412,041</u>
Disbursements	<u>\$ 2,412,041</u>	<u>\$ 1,206,021</u>	<u>\$ 1,206,020</u>	<u>\$ 2,412,041</u>
Mental Health Reform Contract #MHCC 09-023				
Receipts	<u>\$ 2,277,867</u>	<u>\$ -</u>	<u>\$ 1,208,053</u>	<u>\$ 1,208,053</u>
Disbursements	<u>\$ 2,277,867</u>	<u>\$ -</u>	<u>\$ 1,208,053</u>	<u>\$ 1,208,053</u>

See accompanying independent auditors' report